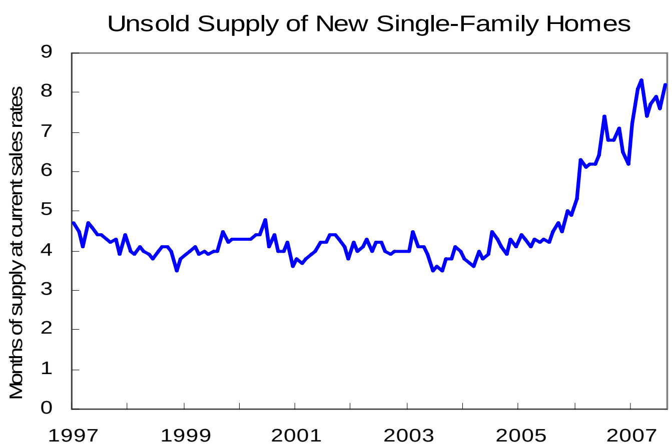
Joint Economic Committee
WEEKLY ECONOMIC DIGEST
Senator Charles Schumer, Chairman
Congresswoman Carolyn Maloney, Vice Chair
October 1, 2007

ECONOMIC NEWS

Weaker Home Sales and Capital Goods Orders

Home sales dropped sharply in August. Sales of existing homes dropped 4.3 percent to 5.500 million units at an annual rate last month. That was 12.8 percent below last year's level. Sales of new single-family homes dropped by 8.3 percent last month to 795,000 units at an annual rate, the lowest monthly rate in over 7 years. Sales of new single-family homes have fallen by 21.2 percent over the past 12 months and the median time between completion and sale has risen to nearly 6 months from 3½ months in August 2006. The supply of unsold new single-family homes has risen sharply this year, to 8.2 months of current sales in August (see chart).



Sources: Census Bureau, U.S. Department of Commerce.

New orders for capital goods dropped last month, further clouding the near-term investment outlook. New orders for nondefense capital goods excluding aircraft—an important indicator of near-term business spending on equipment—declined by 0.7 percent in August. New orders have declined by 1.6 percent over the past twelve months. Real (inflation-adjusted) business investment rose only 0.7 percent between the second quarters of 2006 and 2007 (the latest data available).

Economic growth was revised down slightly for the second quarter. Real (inflation-adjusted) gross domestic product grew at a 3.8 percent annual rate, according to revised estimates by the Department of Commerce which had previously estimated growth at 4.0 percent. The economy rebounded in the second quarter from a tepid first-quarter gain of 0.6 percent but remains only 1.9 percent over the previous year's level. Economists believe that the economy has slowed significantly in the third quarter from the second-quarter pace.

IN FOCUS

The Economic Effects of Incarceration

After remaining roughly steady through most of the 20th century, the U.S. incarceration rate has soared 470 percent since 1970. About 1 out of every 133 U.S. residents is in prison or jail today, as opposed to 1 out of every 620 in 1970. Many more are on probation or parole. The current U.S. incarceration rate is the highest in the world (see SNAPSHOT), and far exceeds the global average of approximately 1 out of every 602 persons imprisoned.

Imprisonment can bring benefits to society as a whole through reductions in crime. But incarceration also creates substantial social and economic costs. Faced with the unprecedented increase in incarceration, it is important to ask whether we are striking the right balance between the costs and benefits of imprisonment.

American government incurs significant direct costs for running the correctional system. Over $200 billion is spent annually by all levels of government on law enforcement and corrections to oversee the nation's 2.25 million incarcerated persons.

But the indirect economic costs of our high incarceration rate could be far higher. One of the most significant costs is the reduction in productivity of both prisoners and ex-offenders. The economic output of prisoners is mostly lost

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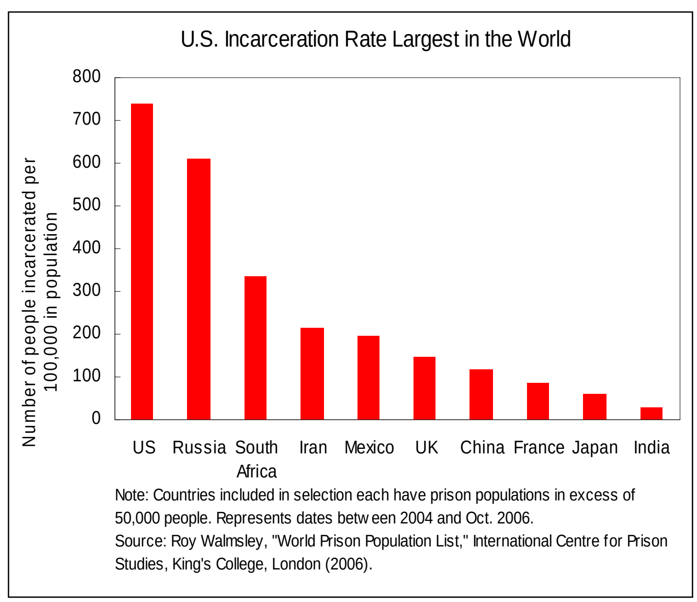
SNAPSHOT



THE WEEK AHEAD

DAY	RELEASE
Thursday, Oct 4	Full Report on Manufacturers' Shipments, Inventories and Orders (August 2007) JEC Hearing—*Mass Incarceration in the United States: At What Costs?* Room 216, Hart Senate Office Building, 9:30 a.m.
Friday, Oct 5	The Employment Situation (September 2007) Consumer Credit (August 2007)

Friday Oct 5th: September employment situation

THE ECONOMY AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	Aug	Jul	Jun	2007 Q2	2007 Q1	2006 Q4	2006	2005
Real GDP Growth (%)	—	—	—	3.8	0.6	2.1	2.9	3.1
Unemployment (% of labor force)	4.6	4.6	4.5	4.5	4.5	4.5	4.6	5.1
Labor Productivity Growth (%)	—	—	—	2.6	0.7	1.8	1.0	1.9
Labor Compensation Growth (%)	—	—	—	3.6	3.2	3.6	3.1	3.3
CPI-U Inflation (%)	-1.2	1.2	2.4	6.0	3.8	-2.1	3.2	3.4
Core CPI-U Inflation (%)	2.4	2.4	2.4	1.9	2.3	1.9	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

IN FOCUS (Continued)

to society while they are imprisoned. Negative productivity effects continue after release. Rigorous studies have found that incarceration reduces wage levels among young men by about 10 to 20 percent when compared to similar individuals who have not served time in prison. This wage penalty apparently grows with time, as previous imprisonment can reduce the wage growth of young men by some 30 percent. Studies based on random employer surveys have supported the findings of strong employment effects of previous incarceration.

The costs of incarceration fall most heavily on less educated minority males. In 2005, about 11.7 percent of black males aged 25 to 29 were in state or Federal prison, as opposed to 1.7 percent of white males in the same age group. Among black men born in the late 1960s without a college education, 30 percent had served time in prison by their late 30s. Recent research also indicates that employment penalties for a criminal record may be greater among minorities. Because incarceration is concentrated among less educated men, it has the effect of exacerbating growth in inequality.

The increase in incarceration has brought some social benefits to counterbalance the costs. Various analysts attribute between one-tenth and one-third of the drop in crime rates during the 1990s to the increase in imprisonment. However, as the rate of imprisonment has grown the composition of the prison population has been shifting toward less serious offenders. By 2002, less than 60 percent of new prison admissions were for violent or felony property offenders. This may create negative returns to additional imprisonment, as the marginal social benefits of incarceration drop while the social costs may increase.

Both state governments and the Congress are examining new ways to reduce the social costs of imprisonment while continuing to protect public safety. Many states are experimenting with various alternative sentencing arrangements and diversionary programs that avoid jail terms for first-time, non-violent offenders. Evaluations of some of these efforts have shown benefits that significantly exceed the costs, especially for programs aimed at youth. Another important area is job training for prisoners, as well as re-entry programs to help ex-offenders establish connections to the legitimate labor market. Once again, evaluations have shown that such programs have the potential to reduce the negative economic effects of incarceration.

The Joint Economic Committee will be holding a hearing on Thursday October 4th at 10AM to examine some of these issues.